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MICRO-MARKETING PROJECT

Business Plan

For: NY Region
5/4/95

Source: https://www.industrydocuments.ucsf.edu/docs/ryjy0000

Market Overview

- Current market is 485.3 billion sticks, of which full price brands equal 67%.

- In the past 3 years, independent manufacturers have managed to take on estimated 5% of the market, worth approximately $500.0MM.

  - Star Tobacco - Gunsmoke
    - Miami Lights
  - Sante Fe Tobacco - American Spirit
  - Japan Tobacco - Wave
  - Commonwealth - USA Gold
    - Reno
  - USA Tobacco - USA
  - House of Samporena - Rave

- At this point in time, the majority of the products marketed by this segment are in the lower price tier. Exceptions, however, like American Spirit and Gun Smoke, have begun to show up in the marketplace.

- RJR has responded successfully to the lowest price segment via Forsyth Tobacco.

- Opportunity exists for RJR to create a presence in the Full Price segment via micro-marketing before independent manufacturers expand upwards.

Source: https://www.industrydocuments.ucsf.edu/docs/ryjy0000

WHAT IS MICRO MARKETING?

The custom tailoring of products and marketing programs to the needs and wants of customer groups on a local basis -- trading areas, neighborhood, even individual stores/outlets.

- Different lifestyles.
- Different products/positionings.
- Different distribution channels.
- Different communication channels.

Source: https://www.industrydocuments.ucsf.edu/docs/ryjy0000

Objective

1. Provide increased revenue from a growing segment of the market that we are not participating in.

    - Introduce 3-5 new brand ideas each year.

    - Within 2 years, build an operating unit contributing $10-20MM to bottom line.

2. Provide key marketing learning for the future by working within a more limited, self-imposed marketing environment.

    - Emphasizing primarily Packaging, POS, and PR.

3. Provide a laboratory of new ideas for the future.

    - Potential new brands for the 21st century.

4. Provide a means in which to speed the integration of RJRT and RJRTI by aggressively pursuing ideas from outside markets and by sharing new brands/trademarks with TI.

Source: https://www.industrydocuments.ucsf.edu/docs/ryjy0000

Strategy

1. Establish a small, entrepreneurial "renegade" team. This team will be empowered to work outside the BU system to generate new full price brand concepts and execute them in the market.

   Current Culture → Process/tactically driven
   New Culture → Idea/implementation driven

2. Minimize increase in infrastructure by working ad hoc with alliances in other departments. Cross functional flexibility will be critical to financial success of entity.

3. Use our best, existing product blends for new brands to insure product quality, minimize R&D overhead, and capitalize on manufacturing efficiencies.

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Guiding Principles

1. Brand concepts must be consumer driven.
2. Distribution/sales must be achieved without extensive Field Sales involvement.
3. Minimize increases in infrastructure to hold down cost structure.
4. Profitability is the measure of success -- not share.
5. While established as an independent entity, never lose sight that we are still RJR.

Source: https://www.industrydocuments.ucsf.edu/docs/ryjy0000

Strategic Advantages Vs. Micro-Manufacturers

1. Superior manufacturing capabilities.
   - In-house packaging development/printing
   - Cutting edge manufacturing operation with excess capacity.
   - Existing product blends with proven consumer acceptance.

2. Superior inventory management and product distribution capabilities.
   - CDC → Public Warehouse → Wholesalers
   - Capable of handling small orders - even partial cases.

3. Existing relationships with key wholesalers.
   - Relationships based on long standing, profitable partnerships.
   - Business building programs like "FOCUS" already in place.
   - Forsyth Partners already established.

4. Key support functions exist within current infrastructure.
   - Legal
   - BIAD
   - R&D
   - Field Sales
   - PR/External Relations
   - Promotion Operations

5. Relationships with broad range of outside suppliers.
   - Willing to work on project bases, based on existing relationships.

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Structure

- Establish new micro-marketing company/division as a DBA (doing business as), rather than a separate corporation.
    - Minimizes internal accounting procedures.
    - May incorporate later if needed.
- Establish under new name and separate address to provide separate identity for consumers -- not the trade.
    - Trade should know parent company, adding credibility to ideas and ease in billing/payment procedures.
    - May utilize current Brook Cove or Davie County operations as mailing address.
- Recommended name for new entity -- Moonlight Tobacco Co.
    - Provides positive/small company imagery for micro brands.
        - Umbrella thematic for all brands.
        - Provides permanent display in store as brands change.
    - Provides unique selling proposition to trade -- "RJR is asking you to Moonlight with us on some unique opportunities."
    - Provides clear distinction internally of new brands.

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APPROACH

Idea Development:

- Conduct ideation sessions with key employees and current RJRT agencies and suppliers.

- Create competitive environment among a select group of creative/idea based companies for on-going concept development.

    - Packaging design firms
    - Independent creative consultants
    - Small promotional agencies

  Utilize low-level fee structure (possibly retainer for set period of time) for idea generation, with the "carrot" being the actual assignment to execute their idea if it wins.

- Visit international counterparts in RJRTI to see what ideas/brands they are working on and determine if they have potential for translating to this market. Openly share Moonlight ideas with them in the process.

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APPROACH

Idea Development (continued)

- Conduct qualitative research/focus groups with targeted segments of smokers to validate "gut" instincts.
    - Have consumers help select and develop ideas.
    - Establish as on-going part of process.
    - Reduce cost via dedicated supplier approach.
- Measure strength of ideas based on:
    1. Their ability to be communicated via packaging and POS only.
    2. The intensity of consumer responses versus the breath of their acceptance.
    3. The clarity of their positioning niche to the trade.
    4. Their ability to provide long term benefit to RJRT beyond sales, (e.g. new distribution channels).

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APPROACH

Execution

- Utilize newly created network of creative partners to fully develop winning ideas.
  - Do not assign new brand projects to existing RJRT agencies -- their efforts need to remain focused on existing brand assignments.
- Utilize alliances within current departments for key oversight functions (e.g., Legal, PR, etc.)
- Co-plan with Packaging and Manufacturing to insure new brand products do not interfere with production schedules of existing brands.
  - Goal is to tie into larger production runs to maximize efficiencies.
- Consider out placement of time intensive functions that may over tax existing alliance individuals/departments, while maintaining cost efficiencies.
  - Print production.
  - Promotion materials distribution.

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STRATEGIC DIRECTION

Focus on establishing Moonlight Tobacco national at retail, with 4-6 regionally targeted brands introduced across the year (3-4 brands in each outlet). Goal is to achieve a .4-.5 share nationally -- 1,800MM-2,300MM sticks as a company. Total contribution $40MM-$50MM.

Positive
- Addresses regional/niche opportunities.
- Success is not dependent on a limited number of ideas.
- Individual brands benefit from well defined position of micro company umbrella.
- Creates an active "idea laboratory", increasing the potential for identifying a brand with long term, broad based appeal.
- Provides retail home for all new brand introductions.
- Allows for multiple brand concepts in same outlet.
- Initial sell-in establishes new multi-brand approach to business, preparing retail partner for new brands across time.
- Capitalizes on existing Forsyth/Focus relationships.

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STRATEGIC DIRECTION (Continued)

Negative - Sales' involvement will be high in initial establishment of Moonlight Tobacco -- through primarily at headquarters level.

- Long term commitment to Moonlight may limit wholesaler participation.

- "Permanent" Retail Home will run up against PM Masters requirements.

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MOONLIGHT TOBACCO COMPANY
LONG-TERM SHARE/EARNINGS POTENTIAL
DOLLARS IN THOUSANDS

		HIGH SCENARIO	LOW SCENARIO
Total Retail Calls (Key, A & B)		136,000	136,000
Sell-in Coverage @ 25%		34,000	34,000
Volume (MM Units): @ 6 Ctns. / Week		2,121.6	
@ 3 Ctns. / Week			1,060.8
Variable Margin @ $30/M		$63,648	$31,824
Less Distributor Incentive - ($1/Ctn.)		($10,608)	($5,304)
Less Marketing Expenses:			
Packaging Development	$300		
POS/Display Pmts.	$650		
Permanent Displays	$500		
Field Marketing/Promotion	$800		
Advertising/Production	$1,500		
Agency/PR Fees/Other	$750		
Total Marketing Spending		($4,500)	($4,500)
Net Margin After Marketing		$48,540	$22,020
MAM / M		$22.88	$20.76

NOTE: Incremental MAM net of Cannibalization:

@ 10% Cannibalization	$42,175	$18,838
@ 20% Cannibalization	$35,810	$15,655
@ 30% Cannibalization	$29,446	$12,473

2/23/95

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MOONLIGHT TOBACCO COMPANY
1995 ESTIMATED MARKETING BUDGET
DOLLARS IN THOUSANDS

	NATIONAL ROLLOUT (34M ACCTS.)	3 METRO TEST (2M ACCTS.)
Packaging Development	$200.0	$200.0
POS/Display Pmts.	600.0	200.0
Permanent Displays	1,700.0	150.0
Field Marketing/Promotion	500.0	100.0
Advertising/Production	1,000.0	300.0
Agency/PR Fees/Other	750.0	750.0
Total Marketing Spending	$4,750.0	$1,700.0

2/23/95

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MOONLIGHT TOBACCO

- **Market Selection**

  - Demographics
  - Dave's/American Spirit
  - Wholesaler Relationships
  - Local Ownership - Regional Manager

- **Market Approaches**

  A. Dedicated/Dominant Wholesaler

  B. Multiple wholesalers

  - Merchandising allowance includes display payment on a per carton basis for A&B - Moonlight Rep./Van within wholesaler organization.

  C. Dedicated Moonlight Rep. with Wholesaler partner

  - Wholesaler gets stamping allowance and FP volume credit, but merchandising allowance goes to retailer - independent/RJR Moonlight Rep. with van and cellular phone.

- **Al Barnett's group to lend support.**

- **Exit Strategy**

  - Identify cigarette outlet/Indian store in each state.

  - Set up JR's in N.C. to exit stock from CDC.

  - Offer all brands to duty free - exit CDC stock.

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